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1943

Report to Stockholders

NATIONAL TOOL COMPANY

CLEVELAND

NATIONAL Tools CLEVELAND

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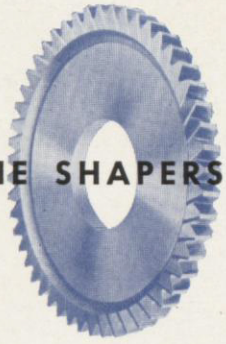
ANNUAL REPORT

FOR THE YEAR 1943



TOOLS ARE THE SHAPERS OF PROGRESS

NATIONAL TOOL COMPANY . . . CLEVELAND

DIRECTORS

ARTHUR J. BRANDT - - - - - - - - - - Detroit, Michigan
President, National Tool Company

LEWIS F. JUBENVILLE - - - - - - - - - Pontiac, Michigan
Partner, A. J. Brandt & Company

SAMUEL J. KORNHAUSER - - - - - - - - - Cleveland, Ohio
Executive Vice President, National Tool Company

J. VICTOR LOEWI - - - - - - - - - Milwaukee, Wisconsin
President, Loewi & Company

JOHN S. PEARSON - - - - - - - - - - - New York City
Dobbs & Company

LEO M. PROSSER - - - - - - - - - - - Cleveland, Ohio
Treasurer, National Tool Company

LIONEL A. SCHMIDT - - - - - - - - - - Cleveland, Ohio
Vice President, National Tool Company

OFFICERS

ARTHUR J. BRANDT - - - - - - - - - - Detroit, Michigan
President

SAMUEL J. KORNHAUSER - - - - - - - - - Cleveland, Ohio
Executive Vice President and Secretary

LEWIS F. JUBENVILLE - - - - - - - - - Pontiac, Michigan
Vice President

LIONEL A. SCHMIDT - - - - - - - - - - Cleveland, Ohio
Vice President and Chief Engineer

EDWARD G. HARDIG - - - - - - - - - - Cleveland, Ohio
Vice President and Sales Manager

LEO M. PROSSER - - - - - - - - - - - Cleveland, Ohio
Treasurer

LEWIS M. SHAFER - - - - - - - - - - - Cleveland, Ohio
Assistant Secretary and Treasurer

* * * *

ANTON ERHARDT - - - - - - - - - - - Cleveland, Ohio
Plant Superintendent

L. A. HEGENBARTH - - - - - - - - - - - Cleveland, Ohio
Comptroller

REGISTRAR OF STOCK CENTRAL NATIONAL BANK, Cleveland, Ohio

TRANSFER AGENT OF STOCK NATIONAL TOOL COMPANY, Cleveland, Ohio

National Tools have an international reputation.

ANNUAL REPORT

TO THE STOCKHOLDERS OF NATIONAL TOOL COMPANY

FOREWORD Another war year has passed since our last Annual Report, during which we have continued to apply the entire resources of our Company to the imperative task of furnishing tools required in the production of equipment for our armed forces. And all persons connected with the Company, those serving in every active capacity, and its stockholders, as well, may justly derive satisfaction from the thought that our contribution has been vital and effective.

Ours has not been a spectacular role. The men on the fighting fronts, having before their eyes quantities of airplanes, tanks, guns and all the vast variety of war instrumentalities, can readily trace their origin to the respective producers. Relatively few persons, however, have realized that none of these mechanical devices would have been possible but for such high precision cutting tools as we manufacture.

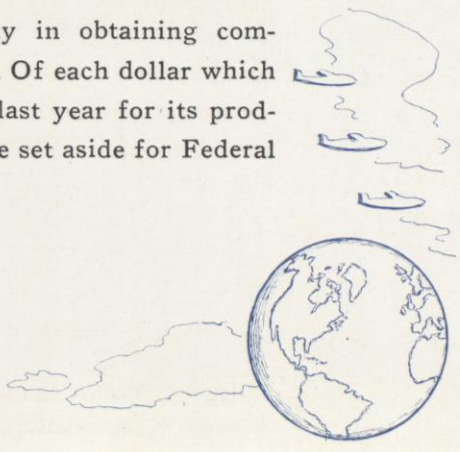
This comment is not inspired by a feeling that our industry has not been accorded due recognition, but rather to emphasize the fact that though our services are performed behind the scenes, they are none the less prerequisite and indispensable. Nor are they overlooked when fully understood, as witness the award to us of the Army and Navy "E", the Government's stamp of approval for the quality and quantity of our products.

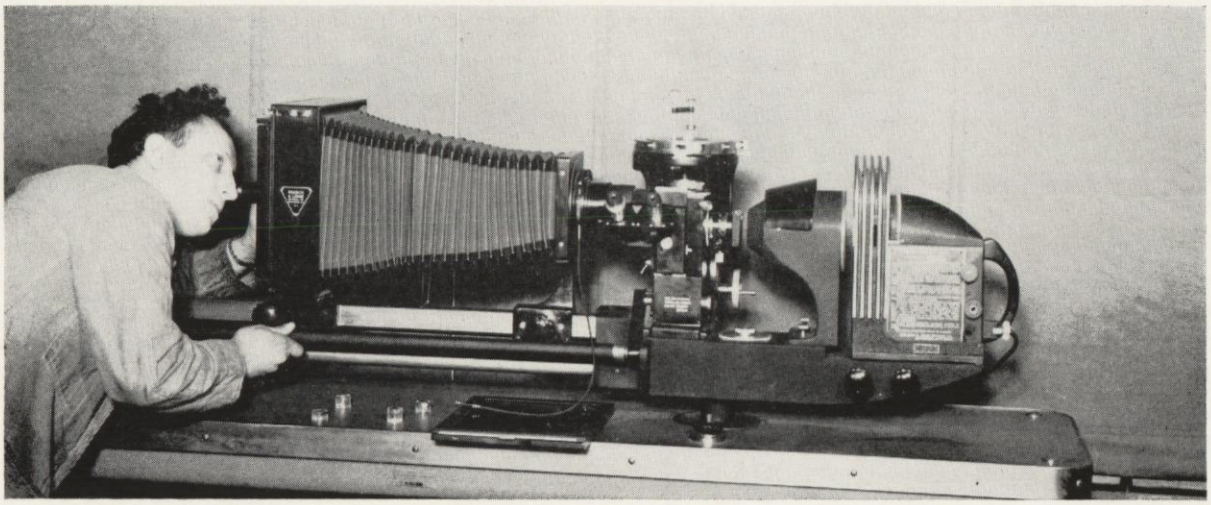
THE YEAR'S OPERATIONS

Our net sales in 1943 amounted to $3,765,-633.10, as compared to $3,517,008.19 in 1942. On the other hand, costs and expenses this year were $3,308,092.13, whereas last year they were $2,933,016.42, a relative increase of 12.79 percent. The net profit shown for 1943, after provisions for estimated Federal Income and Excess Profits Taxes, is $157,540.97. The net profit for 1942, after similar provision for estimated Federal Taxes, was $147,741.22, as disclosed in last year's report. However, when the 1942 figures are adjusted to take into account the actual Federal Taxes applicable and the renegotiation settlement recently arranged, the final net profit for 1942 becomes $129,659.52. The ratio of net profit to sales in 1943 is 4.18 percent. The ratio of final adjusted profit for 1942 to net sales was 3.88 percent. Dividends aggregating 35 cents per share were paid in 1943.

WAR INFLUENCES

A number of factors have contributed to causing great difficulty in obtaining commensurate net earnings. Of each dollar which the Company received last year for its products, 8.64 cents had to be set aside for Federal





The Metallograph which takes microscopic pictures of the build-up and the structure of steel.

Taxes and assessments. Then, too, Government regulations which restricted customers to ordering small quantities of tools at a time, and the shifting from one type of tool to another, as changes in equipment became necessary due to the vicissitudes and exigencies of the war, inevitably increased production costs. Added to these was the loss of many skilled workmen who were taken into the armed forces.

RENEGOTIATION

After the submission of data and many conferences with appropriate Government representatives, a finding was made that our 1942 profits were excessive in the amount of $175,000. On this basis, when effect is given to the recomputation of our 1942 Federal Taxes and abatement of our postwar refund in the amount of $15,750, the Company will be required to make a net cash refund of $17,500. The Government has been notified the Company will accede to this proposed settlement, and steps toward its consummation are now in progress.

You will find on page 7 of this Report the comment of our Auditors as to the improbability of any Renegotiation refund out of our 1943 earnings.

We have also pending before the Treasury Department an application for tax relief under the appropriate section of the Revenue Act. We trust our efforts in this direction may prove fruitful.

"V" BANK CREDIT

As heretofore pointed out, in November, 1942, the Company entered into a Revolving Credit Agreement with the City National Bank & Trust Company of Chicago, commonly known as a "V" Loan Agreement, for an aggregate amount of $700,000 for the purpose of financing inventories and payrolls, expanded in consequence of the enlarged volume of war orders. At its inception, the Company used $600,000 of this credit. During the past year, this loan was reduced by $200,000 to the amount at which it now stands, $400,000. During the year also, the balance of the Company's mortgage loan was paid.

On every front, land, sea and air,
National Tools play a vital part.

POSTWAR

When we applied our entire equipment to the requirements of war, the nature of our products was not changed, but only the uses to which they were put. Thus when the end of the war comes, whether suddenly, or by gradual steps, we shall be able, without any change in facilities, to supply cutting tools for peace-time production. Likewise, we have no reason to expect that on the return of peace we shall incur any loss in our inventories.

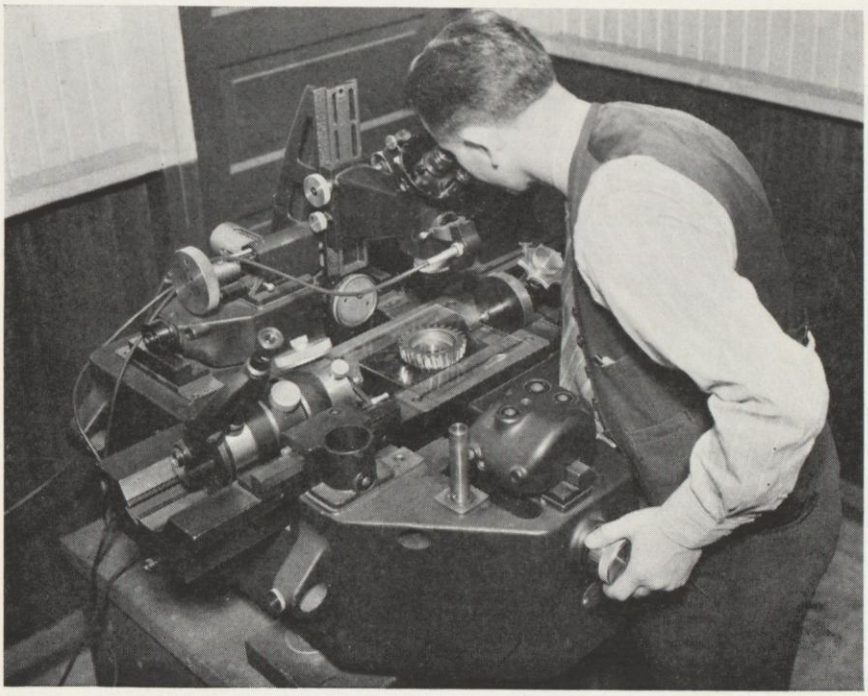
During the past few months, curtailment of war contracts has required cancellation and change of many of our orders. Due to the fact that so many of our orders were connected with Ordnance contracts, we are experiencing a let down in shipments until our equipment is utilized on other tool work required for war. We do not anticipate any civilian orders until victory is much closer than it appears today.

We fervently hope that the day may be hastened when our men bearing the bitter brunt of battle may lay aside their arms, and when National Tool may contribute to our country's progress in peace no less effectively than it does during war.

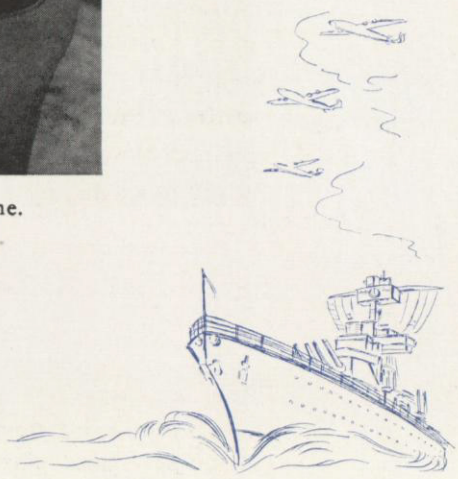
Submitted pursuant on order of the Board of Directors.

A. J. Brandt
President

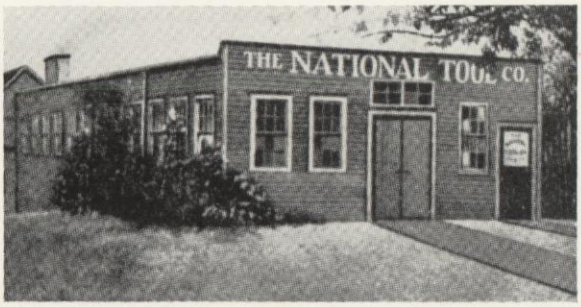
S. J. Kornhauser
Executive Vice President



Inspection through a direct precision measuring machine.



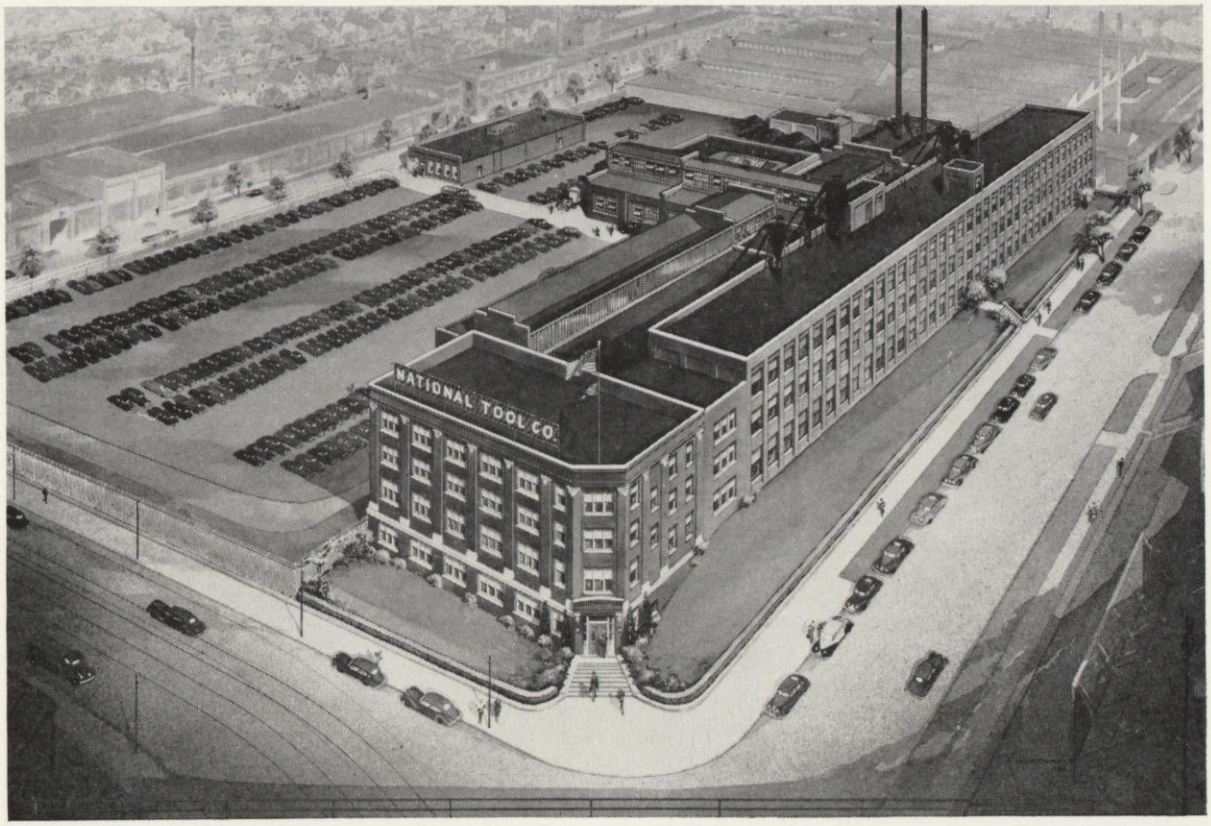
FROM A SMALL BEGINNING



Thirty-nine years ago, in a barn on Lorain Avenue, Edward A. Noll founded the National Tool Company. His equipment was meager, but his technical skill was great and his vision was broad and practical. He knew that metal-cutting tools, made to order, would become ever more important to American industry.

From the small beginning in the barn-factory, the little organization grew to become the largest company which devotes substantially its entire energies to the manufacture of special cutting tools.

The present plant on Madison Avenue at West 112th Street covers a large area and makes an imposing appearance. However, the Company's chief pride is in its efficient working family and the specialized machinery with which it produces metal-cutting tools known for precision and reliability.



Men skilled by experience,
metals selected for each job,
machinery built for precision.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TERMINAL TOWER
CLEVELAND 13

ACCOUNTANTS' CERTIFICATE

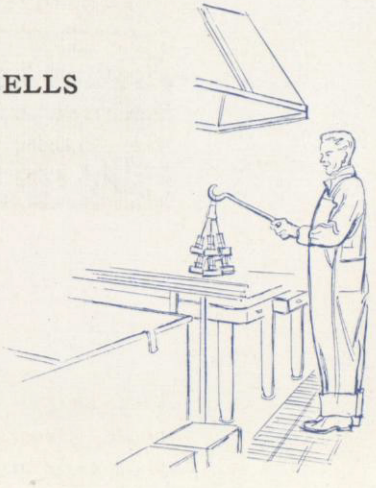
National Tool Company:

We have examined the balance sheet of National Tool Company as of December 31, 1943 and the related summary of income and earned surplus for the year ended that date, have reviewed the accounting procedures of the Company, and have examined its accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control; it was not practicable to confirm receivables from United States Government departments and agencies, but we have satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, subject to the final settlement with respect to renegotiation of war contracts explained in Note B to the financial statements, the accompanying balance sheet and summary of income and earned surplus fairly present the financial condition of the Company at December 31, 1943 and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 1, 1944.



NATIONAL TO

(INCORPORA

BALANC

DECEMBER

ASSETS

CURRENT ASSETS:			
Cash:			
Demand deposits		$ 40,082.86	
Collateral account—Note A		201,628.20	$ 241,711.06
United States Treasury notes and certificates—at cost, plus accrued interest—Note A		$347,389.30	
Less amount deducted from accrued income and excess profits taxes		325,500.00	21,889.30
Accounts receivable—Note A:			
United States Government departments	$ 30,228.01		
Other customers	199,533.60		
Miscellaneous	701.86	$230,463.47	
Less reserve for doubtful accounts		1,500.00	228,963.47
Inventories—at approximate cost, which is not in excess of market:			
Finished goods	$ 29,630.78		
Goods in process	215,030.92		
Raw materials and supplies	128,238.33	$372,900.03	
Less reserve for loss and obsolescence		10,000.00	362,900.03
Total current assets			$ 855,463.86
MISCELLANEOUS ASSETS:			
Cash surrender value of life insurance		$ 8,591.00	
Mutual insurance and other deposits		14,041.48	
Post-war refund of excess profits tax—estimated		49,540.90	
Advances to employees, etc.		1,421.04	
Total miscellaneous assets			73,594.42
LAND, BUILDINGS, AND EQUIPMENT—At cost:			
Land		$ 39,103.98	
Buildings, machinery and equipment, etc.	$501,880.46		
Less reserve for depreciation	257,541.45	244,339.01	
Emergency facilities:			
Buildings and machinery and equipment	$184,937.68		
Less reserve for amortization	79,191.91	105,745.77	
Total land, buildings, and equipment			389,188.76
DEFERRED CHARGES:			
Deferred tool expense		$ 18,801.10	
Development expense		14,310.75	
Patent expense		5,070.71	
Prepaid insurance, taxes, etc.		7,090.49	
Total deferred charges			45,273.05
TOTAL			$1,363,520.09

Our constant purpose:
to make accurate tools
and permanent friends.

)OL COMPANY

TED IN OHIO)

E SHEET

31, 1943

LIABILITIES

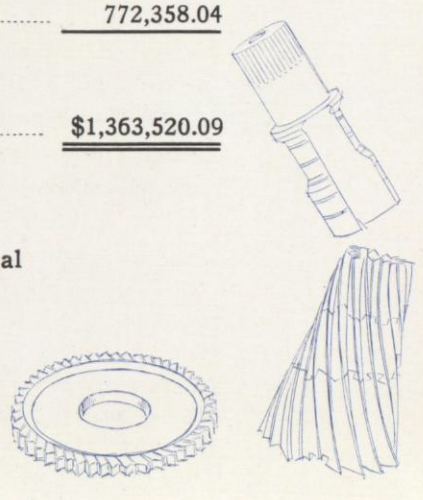
CURRENT LIABILITIES:

Regulation V loan payable to bank—Note A		$ 400,000.00
Accounts payable:		
Trade	$ 32,431.15	
United States Government—for renegotiation of war contracts for 1942—Note B	17,500.00	
Other	16,145.98	66,077.13
Accrued salaries, wages, and commissions		77,838.09
Federal income and excess profits taxes payable—estimated	$325,500.00	
Less United States Treasury notes and certificates—at cost—Note A	325,500.00	(Nil)
Other accrued taxes		22,765.61
Miscellaneous accruals		24,481.22
Total current liabilities		$ 591,162.05

CAPITAL STOCK AND SURPLUS:

Common capital stock, $1 par value—authorized, 600,000 shares; issued and outstanding, 224,444 shares—Note C		$224,444.00	
Surplus:			
Paid-in (no change in 1943)	$126,915.96		
Earned since January 1, 1940	420,998.08	547,914.04	
Total capital stock and surplus			772,358.04
TOTAL			$1,363,520.09

The Notes to Financial Statements on page 10 are an integral part of the above balance sheet.



NATIONAL TOOL COMPANY

SUMMARY OF INCOME AND EARNED SURPLUS

(Since January 1, 1940)

For the Year Ended December 31, 1943

GROSS SALES, LESS RETURNS, ALLOWANCES, AND DISCOUNTS		$3,765,633.10
COST OF SALES		2,834,377.67
GROSS PROFIT FROM SALES		$ 931,255.43
SELLING, ADMINISTRATIVE, AND GENERAL EXPENSES		445,750.38
PROFIT FROM OPERATIONS		$ 485,505.05
OTHER INCOME CREDITS		12,038.90
GROSS INCOME		$ 497,543.95
INCOME CHARGES:		
Interest	$ 29,502.98	
Other	10,500.00	
Total		40,002.98
NET INCOME BEFORE PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES		$ 457,540.97
PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES—		
Estimated:		
Income tax	$ 70,500.00	
Excess profits tax (less $25,500 credit for post-war refund)	229,500.00	
Total		300,000.00
NET INCOME FOR THE YEAR		$ 157,540.97
EARNED SURPLUS (since January 1, 1940), JANUARY 1, 1943		338,949.83
SURPLUS CREDIT—Adjustment of prior years' Federal income and excess profits taxes		36,312.68
GROSS SURPLUS		$ 532,803.48
SURPLUS CHARGES:		
Dividends paid	$ 78,555.40	
Renegotiation of war contracts for 1942, less Federal income and excess profits taxes previously paid thereon	33,250.00	
Total		111,805.40
EARNED SURPLUS (since January 1, 1940), DECEMBER 31, 1943		$ 420,998.08

The above statement includes depreciation, and amortization of emergency facilities aggregating $64,398.83.

The Notes to Financial Statements on page 10 are an integral part of the above summary.

When the Victory whistle blows, National Tool will be ready for a new era of business progress.

NATIONAL TOOL COMPANY

NOTES TO FINANCIAL STATEMENTS

Note A—The Company's Regulation V loan agreement provides for a maximum outstanding amount of $700,000 subject to certain limitations based on the amount of its war contract inventories, receivables, and unfilled orders.

At December 31, 1943 war contracts in the amount of $4,276.88 and the following assets included in the above balance sheet were pledged in accordance with the requirements of the loan agreement:

Cash	$201,628.20
Accounts receivable	200,076.68

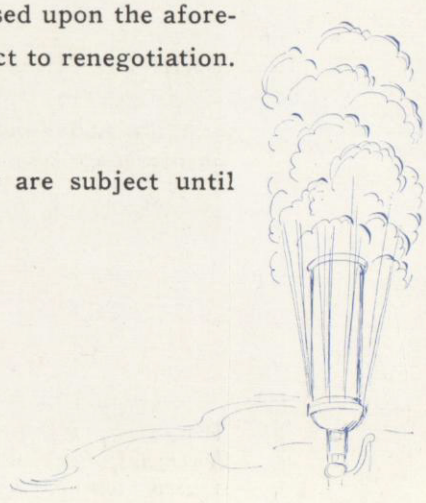
In addition to the above, and also in accordance with the requirements of the loan agreement, United States Treasury Tax Anticipation Notes and Certificates of Indebtedness in the amount of $347,389.30, including accrued interest, were deposited with the bank to provide for the payment of accrued Federal income and excess profits taxes.

The loan agreement also contains restrictions as to the amounts of dividends which may be paid and net working capital which must be maintained.

Note B—The Price Adjustment Board of the War Department and the Company have agreed upon an amount of $175,000 to be refunded to the Government in connection with the renegotiation of war contracts for the year 1942, and provision for the refund less excess profits tax paid thereon is included in the above balance sheet. However, at the date of issuance of this report the formal signed agreement had not been received by the Company.

No provision has been made for renegotiation for the year 1943. As based upon the aforementioned 1942 agreement it appears that the 1943 profits will not be subject to renegotiation.

Note C—Five thousand shares of the unissued stock of the Company are subject until January 2, 1946 to an underwriter's purchase option at a price of $3 a share.

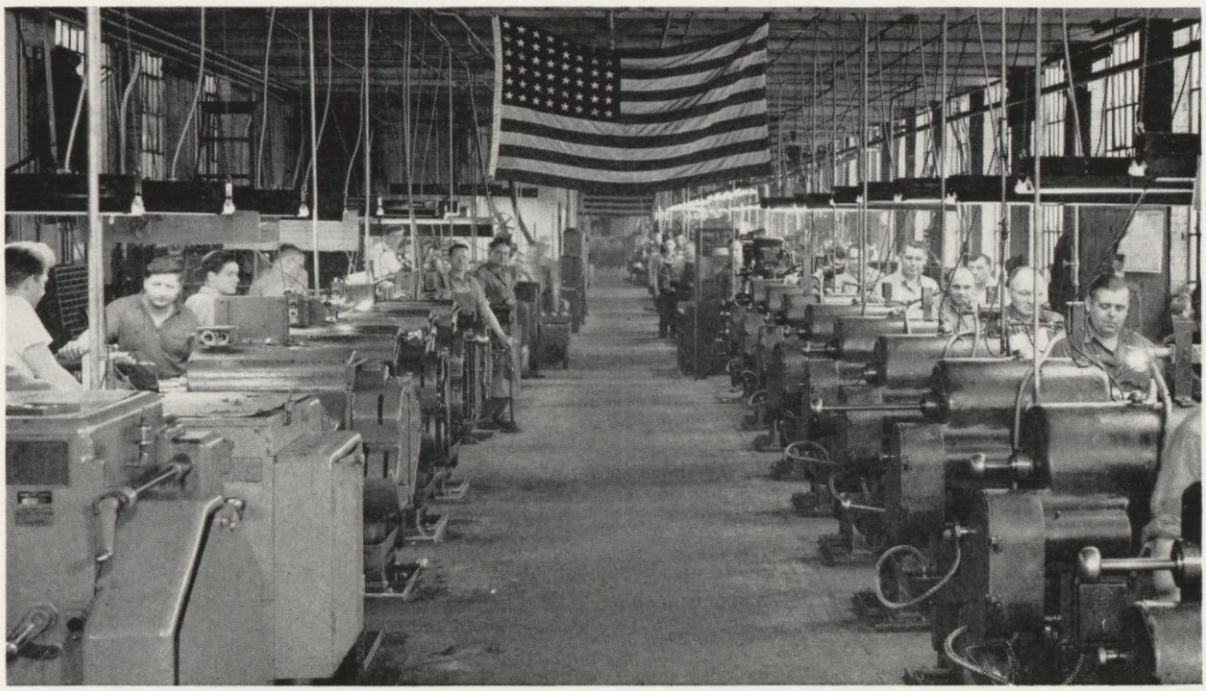


GIVING THEIR BEST

Whether on the battlefronts or at work in the plant, the men and women of National Tool are giving their best to the war effort. Letters from all over the world and messages from Company and workers keep alive the inspiration between factory and front.

During the past year, the Company wrote to all its co-workers wherever the Government had called them, that National Tool would have places waiting for them upon their return. It has been pleasant indeed for the Company to receive enthusiastic responses to its messages.

Within the plant our co-workers are maintaining the skill and energy that has long characterized their efforts. They are earnestly fashioning the cutting tools that are vital to the fabrication of ships, tanks, guns and planes and the other implements of war. Furthermore, they are buying bonds and participating loyally in all war activities.



PRODUCTS of PRECISION

Dr. L. A. Schmidt in his laboratory where new developments have their inception.

Accuracy, quality and adaptability are keynotes in the production of National Cleveland Tools. In the laboratory Dr. L. A. Schmidt continuously searches for new ways of achieving the highest efficiency, and all phases of production have the earnest and skillful supervision of Superintendent Anton "Tony" Erhardt.

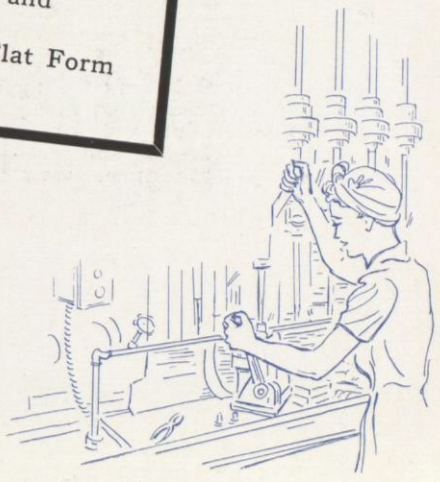
It is a National Tool policy to give engineering counsel to those companies having problems related to metal-cutting tools.

Quality workmanship has always been the chief characteristic of the Company's products, a fact that accounts for their wide acceptance by leading industries.

NATIONAL Tools CLEVELAND

National metal - cutting tools are made to order for manufacturing today's wartime implements and tomorrow's peacetime products.

- Reamers
- Broaches
- Counterbores
- Gear Cutters
- Slitting Saws
- Special Tools
- Milling Cutters
- Gear Shaper Cutters
- Herringbone Cutters
- Hobs, Ground and Unground
- Circular and Flat Form Tools



A Publication with a Purpose

To present to our customers and friends authoritative messages from leaders in industry and in national affairs, is the purpose of National Tool's publication, BLUEPRINTS OF THE FUTURE.

Among the contributors in recent months, have been distinguished authorities representing a diversity of activities.

Excerpts from articles:

Our supreme responsibility is to rear a generation fit for the tasks which have outmatched us.

—Dr. W. E. Wickenden

Out of the welter of the war effort, values will flow that will increase man's effective span of life with greater satisfaction for living.

—Dr. Gustav Egloff

A new world is being forged today in the fires of war by the research scientists of American industry. At the same time that they are designing the weapons of war they are preparing the peacetime marvels of tomorrow.

—David Dietz

Freedom of individual enterprise is far more important and far more dear to the hearts of the great American people than any promises a government can give about freedom from want or fear.

—Fulton Lewis, Jr.

I believe the opportunities that are open to us for the next few years as we go into the postwar period and years beyond are almost unlimited. The question is — will we develop the field that makes them possible.

—Alfred P. Sloan, Jr.

★ ★ ★ ★ ★

WHAT NEXT?

These two simple words propose a problem that individuals, business houses, cities and nations are struggling to solve.

The problem has a critical significance. We are confident that we will win the war, but we are anxiously planning how to win the peace, how to find our way through the conversion period efficiently, how to meet the postwar uncertainties successfully.

Let's blueprint the future with foresight and confidence — the American Way!

★ ★ ★ ★ ★

Transport planes will carry world commerce over terrain where the inhabitants have never heard a locomotive whistle or seen a motor truck. Our globe will rapidly shrink in size as time-saving wings serve to make easier world interchange of political, social, industrial and commercial ideas.

—Cyril C. Thompson

I see no reason why, when the war is over, we can't have a much higher standard of living in our country, have more things for more people than we ever had before.

—Charles E. Wilson

Our *metal* headaches are rapidly decreasing in both numbers and severity. This surely means for the Axis powers an increase in *mental* headaches.

—Dr. Zay Jeffries

Not less profit, but more to the efficient, the competent and the industrious and less to the drones and the loafers, for that has always been the method of progress and there is no reason to think that God has made new plans.

—Dr. George B. Cutten

With confidence in ultimate victory, it is not too soon to plan to meet the increased demands for air-transport service, and make good neighbors close neighbors.

—Harold J. Roig

Envisioning closer relationships with Europe following the war, particularly with the English-speaking countries, the need for greatly expanded communication plans to connect our own country and Europe may be expected.

—L. L. Evert

Our sales engineers are helping to make blueprints of the future.

SALES OFFICES

EDWARD G. HARDIG
Sales Manager
Cleveland, Ohio

DAVID M. HALLIER
Assistant Sales Manager
Cleveland, Ohio

GEORGE O. DESAUTELS CO.
438 Postal Station Bldg.
Indianapolis, Indiana

CHARLES L. BUNNER
c/o George O. Desautels Co.
P. O. Box 776
Muncie, Indiana

FRED C. AHRENDT
320 Ontario Street, Office 101
Toledo 2, Ohio

L. H. SIBLEY
Cleveland, Ohio

N. W. DORR
4456 West Madison Street
Chicago 24, Illinois

DON W. PATTERSON
2012 Rand Building
Buffalo 3, New York

J. & L. TOOL SUPPLY CO.
1608-10 Dudley Street
Cincinnati, Ohio

LOUIS LOWY
417 Boulevard Building
Detroit 2, Michigan

JOHN W. VOGLER
1218 Olive Street
St. Louis 3, Missouri

CHARLES E. LOWE CO.
Berlin Turnpike
Wethersfield 9, Connecticut

HARRY M. DUNN
P. O. Box 981
Houston 1, Texas

WALTER J. WHATLEY
98 Broadway
Cortland, New York

JOHN J. NORMOYLE
607 Third Avenue
Moline, Illinois

HARRIS PUMP & SUPPLY CO.
Brady & Sidney Streets
Pittsburgh 3, Pennsylvania

TOOL ENGINEERING SERVICE
505 North 22nd Street
Birmingham, Alabama

OREN W. ANTHES
514 Century Building
808 North Third Building
Milwaukee 3, Wisconsin

ARTHUR JACKSON MACHINE TOOL CO.
60 Front Street
Toronto, Canada

H. WILSON RYNO
1060 Broad Street, Room 308
Newark 2, New Jersey

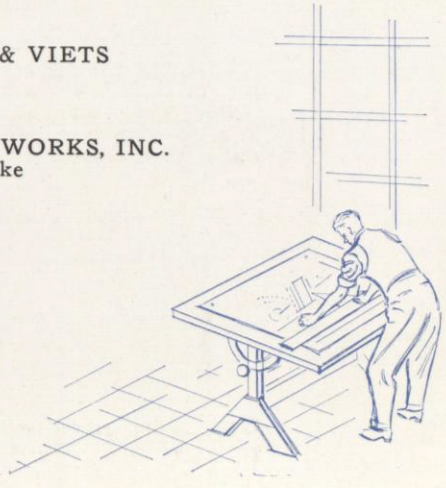
DAVIS INDUSTRIAL PRODUCTS CO.
338 N. W. Sixth Avenue
Portland 9, Oregon

OTTO WILHELMY & SONS
1268 Commercial Trust Bldg.
Broad Street - South Penn Square
Philadelphia 2, Pennsylvania

GENERAL IRON & STEEL PRODUCTS CO.
P. O. Box 3104
Tulsa 8, Oklahoma

ALMQUIST BROTHERS & VIETS
2300 East 49th Street
Los Angeles 54, California

SILVER ENGINEERING WORKS, INC.
33rd to 34th Streets on Blake
Denver, Colorado



A Company is known by the company it keeps.

Delco-Remy
S.K.F.
American Locomotive Company
Hyatt Bearings
Master Electric Company
Deere & Co.
International Harvester
Bullard Co.
Wright Aeronautical Corp.
Delco Products
Spicer Manufacturing Company
Western Gear Works
Buick
Nash-Kelvinator
Chicago Gear
Sperry Gyroscope Company, Inc.
Warner & Swasey
Reed Roller Bit
Continental Motors Corp.
General Motors Truck & Coach
Bell Aircraft
Lufkin Foundry
Studebaker
Kearney & Trecker
Consolidated Vultee Aircraft
Frigidaire
Detroit Gear Aircraft
Youngstown Sheet & Tube Company
D. O. James Manufacturing Company
American Bosch
Ottumwa Iron Works
Caterpillar Tractor Company
Chevrolet
Emsco Derrick & Equipment
R. G. LeTourneau, Inc.
Cincinnati Milling Machine
Thompson Products
Cadillac
Pontiac
Curtiss Wright
Oliver Farm Equipment Company
Link Belt
General Electric
Philadelphia Gear Works, Inc.
Gleason Works
Chrysler
Jack & Heintz
John Deere Tractor Company
Ford Motor
Heald Machine Company
Consolidated Steel Corp.
Warner Gear
Hudson
Saginaw Steering Gear
Packard
Allison

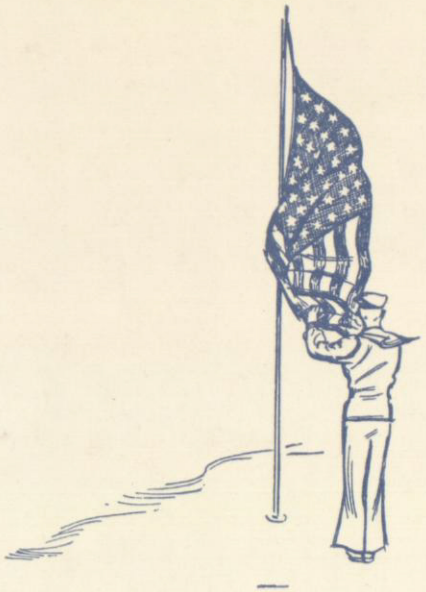
NATIONAL TOOL appreciates the opportunity of providing metal-cutting tools for these companies and many other leading industrial institutions.

ARMY E NAVY

NATIONAL TOOL Co.

11200 MADISON AVENUE . CLEVELAND, OHIO

National Tool men and products
are following the flag to Victory



NATIONAL TOOLS HAVE AN INTERNATIONAL REPUTATION